

SPECIAL PROVISIONS

to the BASE CONTRACT FOR SHORT TERM

SALE AND PURCHASE OF NATURAL GAS

(GISB Standard 6.3.1, version 1.4, Dated January 7, 2000)

between

CALIFORNIA DEPARTMENT OF WATER RESOURCES

P. O. Box 219001
3310 El Camino Avenue
Sacramento, CA 95821
("Buyer")

and

Coast Energy Group
1600 Highway 6, Suite 400
Sugar Land, TX 77478-4911
("Seller")

Dated: July 1, 2001

Contract # _____

The parties agree to amend the General Terms and Conditions of the Base Contract as follows:

1. The following shall be added immediately following Section 1.1:
 - 1.1.1 The parties agree that this Base Contract shall only be used for transactions having a Delivery Period of one year or less and may not be used for transactions having a delivery period in excess of one year.
2. The second sentence of Section 1.2 **Oral Transaction Procedure** shall be amended to read as follows:

Any Gas purchase and sale transaction may be effectuated in a recorded telephone conversation with the offer and acceptance constituting the agreement of the parties.

3. The penultimate sentence of Section 1.2 **Oral Transaction Procedure** shall be amended as follows:

“EDI” shall be deleted

4. Section 2.9 and Section 3.2 shall be amended as follows:

The phrase “or alternate fuels” shall be deleted.

5. Section 2.14 shall be deleted.

6. The following shall be added immediately following Section 2.26:

2.27. “Fund” shall mean Department of Water Resources Electric Power Fund established by Section 80200 of the Water Code of the State of California (the “Water Code”).

7. The second sentence of Section 8.3 shall be amended to read as follows:

To the extent expressly permitted by law, Buyer agrees to indemnify Seller and save it harmless from all Claims, from any and all other persons, arising from or out of claims regarding payment, personal injury or property damage from said Gas or other charges thereon which attach after title passes to buyer.

8. The following shall be added immediately following Section 10.2:

10.3. Buyer’s obligation to make payment of amounts due hereunder from the Fund in accordance with the provisions of Sections 10.4, 10.5 and 10.6 shall be deemed adequate assurance and sufficient security in form and term acceptable to Seller for the purposes of Section 10.1. In no event shall Buyer be required to provide a standby irrevocable letter of credit, a prepayment, a security interest in any asset, a performance bond or a guarantee hereunder. For the purpose of this Base Contract “adequate assurance of performance” with respect to Buyer shall mean evidence reasonably satisfactory to Seller that Buyer either has, or reasonably expects to have, sufficient funds on hand to meet its obligations, including its obligations under this Base Contract, based on, among other things, current fund balances, outstanding bills to or expected collections from retail customers, revenue expected from the sale of surplus power or other expected revenues, or rate increases implemented or to be implemented to meet Buyer’s revenue requirements; provided, however, that Seller shall have no reasonable grounds for insecurity of payment and shall not demand such adequate assurance of performance so long as Buyer’s bonds, notes or other indebtedness are rated BBB- or better by Standard & Poor’s Rating Group, or its successor, or Baa3 or

better by Moody's Investor Services, Inc., or its successor. Buyer shall not be in default and Seller's request for adequate assurance shall have been met, if Buyer (a) has paid all amounts due and payable hereunder in accordance with the terms hereof, and (b)(i) demonstrates to the reasonable satisfaction of Seller that expected revenues are sufficient to provide for timely payment of all its obligations, and/or (ii) immediately undertakes to establish and revise, if it has not previously established and revised, its revenue requirements pursuant to Section 10.6 so as to provide for timely payment of all its obligations, including payments under this Base Contract.

9. The following shall be added immediately following Section 10.3:

10.4. Buyer's obligation to make payments hereunder shall be limited solely to the Fund. Any liability of Buyer arising in connection with this Base Contract or any claim based thereon or with respect thereto, including, but not limited to, any payment pursuant Section 3.2 hereof arising as the result of any breach or event of default under this Base Contract, and any other payment obligation or liability of or judgment against Buyer hereunder, shall be satisfied solely from the Fund. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA ARE OR MAY BE PLEDGED FOR ANY PAYMENT UNDER THIS BASE CONTRACT. Revenues and assets of the State Water Resources Development System shall not be liable for or available to make any payments or satisfy any obligation arising under this Base Contract.

10. The following shall be added immediately following Section 10.4:

10.5. Payments under this Base Contract shall constitute an operating expense of the Fund payable prior to all (a) bonds, notes or other indebtedness secured by a pledge or assignment of all revenues under any obligation entered into, and rights to receive the same, and moneys on deposit in the Fund and income or revenue derived from the investment thereof or (b) payments to the general fund.

11. The following shall be added immediately following Section 10.5:

10.6. In accordance with Section 80134 of the Water Code, Buyer covenants that it will, at least annually, and more frequently as required, establish and revise revenue requirements sufficient, together with any moneys on deposit in the Fund, to provide for the timely payment of all obligations which it has incurred, including any payments required to be made by Buyer pursuant to this Base Contract. As provided in Section 80200 of the Water Code, while any obligations of Buyer pursuant to this Base Contract remain outstanding and not fully performed or discharged, the rights, powers, duties and existence of Buyer and the Public Utilities Commission shall not be diminished or impaired in any manner that will affect adversely the interests and rights of the Seller under this Base Contract.

12. The following shall be added immediately following Section 13.8:

13.9. Seller has stated that, because of the administrative burden and delays associated with such requirements, it would not enter into this Base Contract if the provisions of the Government Code of California and the Public Contracts Code of California applicable to state contracts, including, but not limited to, advertising and competitive bidding requirements and prompt payment requirements would apply to or be required to be incorporated in this Base Contract. Accordingly, pursuant to Section 80014(b) of the Water Code, Buyer has determined that it would be detrimental to accomplishing the purposes of Division 27 (commencing with Section 80000) of the Water Code to make such provisions applicable to this Base Contract and that such provisions and requirements are therefore not applicable to or incorporated in this Base Contract.

13. The following shall be added immediately following Section 13.9:

13.10. It is understood by the parties that, with respect to the Buyer, only the following persons or such other persons as designated in writing by Buyer shall be authorized to enter into any transaction contemplated hereunder on behalf of Buyer: (1) Mark Baldwin; (2) Chuck Toney.

14. The following shall be added immediately following Section 13.10:

13.11. It is understood by the parties that the California Department of Water Resources means the California Department of Water Resources, acting solely under the authority and powers created by AB1-X, codified as Sections 80000 through 80270 of the Water Code of California, **as amended**, and not under its powers and responsibilities with respect to the State Water Resources Development System.